

CONSULTING FEES

- Written by the Career Transition Center staff

Our clients are always asking us how to calculate consulting fees. That is a very difficult question for us to answer because fee calculation methodology and levels vary by industry, profession, location, and other major factors. But, still undaunted, we step into the breach. We have gathered some general guidance here to get you started.

How To Charge Consulting Fees

Consulting fees can be charged in many different ways, including – but not limited to – the following:


- a flat fee for the entire project or program
- a flat fee plus expenses
- an hourly fee
- a daily fee
- a contingency or performance arrangement
- a value-based fee
- on a retainer basis with a monthly fee
- You will need to study your local market to see how other successful consultants in your field are charging and being paid. You may even have to adapt your method of billing to a client's preferences.

However you decide to charge your client, you should probably start by calculating your overhead costs, labor costs, and desired profit in order to set your fee. Obviously, your fee must be competitive -- you don't want to charge more than your competition, especially when you are new to the market. How much you will be able to charge for your services may limit your overhead expenses. You may have to perform all the clerical work and the cleaning, for instance, until you can charge more for your services.

Overhead Costs

"Overhead" includes all the costs you incur to perform your business. It is a good idea to discuss all that overhead entails with other professionals in your field. You may also be able to collect estimates from service providers. Overhead may include some of the following costs:

- Accounting services
- Advertising and marketing
- Bank charges
- Cleaning services



"Consultants have credibility because they are not dumb enough to work at your company."

- Scott Adams, American cartoonist

- Clerical services
- Continuing education
- Employees
- Fringe benefits (e.g., health insurance, social security, vacation)
- Insurance (health, life, disability, business, professional liability, tenant, auto, etc.)
- IT miscellaneous (e.g., DSL lines, website development and maintenance)
- Legal services
- License and permit fees
- Miscellaneous, unexpected costs
- Office equipment and furniture
- Office rent and utilities
- Office supplies, including stationery
- Postage and delivery costs
- Preparatory time
- Professional association memberships
- Representational expenses (e.g., 3 martini lunches with prospective clients)
- Subscriptions to professional resources and publications
- Taxes, including the self-employment tax which includes the employee's and the employer's contribution to Social Security — and maybe even a tax consultant!
- Telephones (land-line and cellular, local and long distance), faxes, pagers, answering service
- Trade shows, conventions, conferences, etc.
- Travel time and transportation expenses



*“Consultant:
any ordinary
guy more than
fifty miles from
home.”*

- Eric Sevareid, American

Labor Costs

It is very easy for individuals to overestimate or underestimate their worth as a consultant. It is difficult to gain an accurate sense of what you are worth. And that worth may change depending upon the type of work, how long it will take (daily fees are generally lower for longer contracts) and the organization. So, you need to find out what other consultants in your field are earning. Sources of that information could include:

- A professional organization in your field
- A trade association in your industry
- Other consultants in your local market who offer the same or similar services
- Potential clients

As you have heard us say a gazillion times, the primary source of any kind of employment information, including consulting fees, is networking. In other words, the best information will come from others who are consulting in the same sector (private, nonprofit, or public sector) and subject matter (PR, security, political risk analysis, etc.) that you wish to enter.

Consultants within organizations like The World Bank Group have access to the organization's detailed matrices that integrate types of consulting, educational level and years of experience into a daily rate. But, even if an organization has a matrix, getting a copy can be problematic. Your consultant contacts may be willing to share that information or you may be able to find it on the organization's website. But most organizations have nothing of the kind, so their consulting rates can be unpublished, unorganized, and unpredictable.

Self-employed consultants may be reluctant to share fee information with prospective “competition.” But, if you can make friends with the competition, they are a wonderful source of information and guidance. They may even refer clients to you when they are too busy or on vacation. The best place to make these friends are through professional organizations and events.

These exchanges with consultants may also help you to gauge your own skill level in comparison to your competition. This is also an important factor to consider when setting your fees.

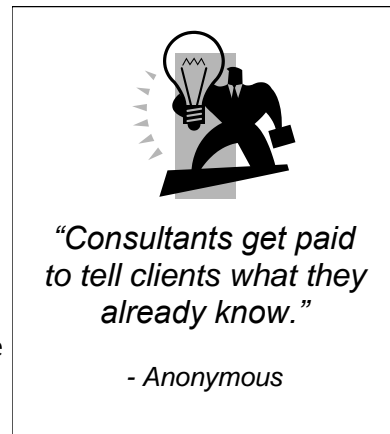
A more surreptitious method of fee research would be to call another consultant’s office to ask what are their fees – without identifying yourself. Alternatively, you could ask a friend to call and inquire.

If you are unable to discover what your competition charges and you have been doing similar work for an employer, then start with your most recent annual salary. Push out of your mind the idea of a daily rate based on your past salary plus some profit. Remember you won’t be working regular hours or even everyday.

Another important factor to consider in setting your consulting fees is what you need to make. If you have serious financial obligations, you must make enough money to fulfill those obligations.

Profit

Next, think about profit. Do not include your salary in the profit. Profit is your reward for good work and enables you to expand and develop your business. Many consultants base their profits on a percentage of their total costs (i.e., overhead + labor). The amount of percentage may depend on your profession or your local market. 10% to 20% percentages are common.



Billable Hours

Then you must figure out how many billable hours you will work in a year. Billable hours do not include time spent on continuing education, professional association meetings, marketing, general administrative tasks like bookkeeping and billing, or annual or sick leave.

Calculating An Hourly Rate

Much of the literature on consulting fees guides new consultants to this formula:

$$\frac{\text{Overhead costs} + \text{Annual salary} + \text{Profit}}{\text{Number of billable hours in 1 year}} = \text{Hourly rate}$$

Whatever the amount resulting, be sure that it is not too high in comparison to your competition or too low. Very high fees can hurt your business if potential clients can get the same services for less money elsewhere. Very low fees may send the message that you are not as experienced, talented, or reliable as your competition.

Calculating A Flat Fee

Clients generally like this billing method as there are no surprises. Many consultants do not like this billing method because, in the course of performing the service or project contracted, they may find surprises.

"A consultant is someone who saves his client almost enough to pay his fee."

- Arnold H. Glasgow



To protect yourself from those surprises, you can break the project up into clearly defined phases, giving the client a quotation at the beginning of each phase. Breaking the project down into phases may also help you estimate your costs more accurately. As in the calculations for an hourly rate, these calculations involve the costs of overhead, labor, and billable hours.

A consultant can even arrange for the client to pay at the completion of each phase. That way, you can also find out early on if your client is unreliable about payments. On the other hand, if your client doesn't like your work, the client can withdraw at completion of any phase.

Alternatively, if the project will last a predetermined amount of time, then the consultant can break a flat rate up into scheduled payments. If the project duration is one year, the client could make monthly installments on the flat rate.

Calculating Contingency or Performance Fees

If a consultant is totally confident that he can increase his client's profits, then he may feel comfortable charging a fee based on a percentage of those profits. This method comes with some risks. Two of the most obvious are the consultant may not succeed in increasing the profits and the client may not calculate the percentage as agreed. Needless to say, the terms of such an agreement must be very specific and probably involve lawyers.

Some consultants use a variation on this method by charging a flat rate plus a percentage of profits resulting from their work.

Calculating Value-Based Fees

If a consultant can save his client a considerable amount of money, then he might justify his fee based on that value to his client. The consultant must figure out how much the client would be willing to pay in order to save that much money – i.e., the value of the consultant's service.

"A consultant is someone who takes your watch away to tell you what time it is."

- Ed Finkelstein



Calculating Retainer Fees

This method involves a set monthly fee for which the client may receive a set measure of work. The measure can be in hours of labor, numbers of services, pages of manuscripts, or other commodity. Many consultants offer discounts to customers paying fees in this manner. Retainer fees guarantee a steady income and may be very attractive to new consultants who are just getting started.

Summary

So, these are the factors to consider when you are setting your consulting fees:

- How much money you personally need to meet your obligations

- Your overhead
- Number of billable hours
- How much your competitors are charging
- How much potential clients are willing to pay, including the value of your service to them
- Your skill level, where you fit in the market, what you bring to the table
- Your method of charging fees (hourly, flat rate, etc.)


Online Assistance

The Wall Street Journal's CareerJournal website (www.careerjournal.com) takes you to SalaryExpert.com which sends you to offers some good information on salary levels for consultants in several general fields in different U.S. cities. You can buy more detailed information from them in "Premium Salary Reports."

BusinessWeek online (www.businessweek.com) with Salary.com's Salary Wizard tools (http://swz.salary.com/salarywizard/layoutscripts/swzl_newsearch.asp) also provides salary information on consultants.

The JobStar (www.jobstar.org/tools/salary/sal-prof.cfm#Consulting) website offers two sources of consulting salary information.

Note: Be very careful with these – read the fine print -- as some are referring to "consultants" who work as fulltime employees for firms of consultants like Booz Allen Hamilton, not independent consultants.



"When you hire me, you hire a nut who is going to work 24 hours a day for you and never, ever burn his audience."

- Howard Stern, American radio personality